

Banking Services Task Force Working Paper 3

Department of the Treasury Review of the Commonwealth's Usage of Banking Services Briefing to the Banking Services Operational Review Team October 27, 2010

The following are responses and analyses of issues and questions raised at the October 12, 2010 meeting of the Banking Services Operational Review Team.

Department of Taxation Tax Refund Checks:

- Out of 2,815,762 tax refunds processed in FY 2010, 47.48% were made electronically.
- 98% of all tax refunds are written to individual tax filers.
- Hindrances to electronic refunds include: individuals that do not have bank accounts, distrust of on-line, Internet transactions, and once a year refunds for which debit cards are not a viable solution.
- Incentives and policy changes could include: making it considerably longer to receive paper checks versus electronic payments and charging a fee to receive a paper check. Major promotions have been made using a number of different media to encourage taxpayers to receive their refunds electronically and the percentage of electronic payments goes up some each year, but in order to push the numbers up substantially, new incentives must be implemented.

Virginia Retirement System Payments:

- Out of 1,828,701 payments processed in FY 2010, 93.20% were made electronically.
- Of the 124,386 checks written in FY 2010, 91,331 were retiree payroll; 5,349 were retiree intermittent payroll and other; 13,798 were refund checks; and 13,908 were alternate health credit checks.
- Retiree payroll checks (91,331) are still the driver of paper check processing. VRS has campaigned over the last year to try to get retirees to voluntarily convert to direct deposit. VRS has discussed the debit card option, but have safety concerns about this method.
- Intermittent payroll checks (5,349) are for the first retirement payment for retirees who are late getting on the payroll and for PLOP payments, which are one-time lump-sum payments.
- Refund checks (13,798) are one-time payments for terminating plan members. Consideration should be given to making these payments direct deposit where the member is on the direct deposit system. Otherwise, a paper check is the best option.
- Alternate health credit checks (13,908) are payments made to employees who are eligible for the health insurance credit, but who are not on the VRS retirement payroll. The VRS system that makes these payments was designed to only produce checks. An ACH payment option may be worthy of consideration here.
- In planning for the disbursement portion of the VRS modernization project, discussions resulted about increasing electronic payments, but no decisions have been made. The disbursement portion of the modernization project is not expected to be implemented before the Spring of 2013.

Department of Social Services Payments:

- Out of 4,399,734 payments processed in FY 2010, 90.77% were made electronically.
- Of the 405,921 checks processed, 310,424 were for child support payments and 42,785 were for the Temporary Assistance for Needy Families (TANF) program.
- 74.40% of all TANF payments are made electronically. The largest portion of TANF checks issued are to recipients who choose to have their benefits delivered by check. Other reasons for check issuance include: recipients who do not have a social security number as required for debit cards and recipients who do not have a bank account as required for direct deposit; payee cases which have not been entered into the system; diversionary assistance payments sent directly to vendors on the recipient's behalf; and emergency assistance.
- Hindrances in converting TANF payments to electronic payments include: recipients who are reluctant to receive electronic payments; recipients who do not have a social security number or bank account; recipients who are not able to receive the benefits for his/her self and payment is made to another payee; recipients in rural areas not close to a bank or ATM as well as those who lack transportation; and diversionary payments to a vendor.
- 92.57% of all child support payments were processed electronically. The largest portion of child support checks issued are for cases enforced by DCSE. Other reasons for check issuance include: child support handled by private attorney or court; refunds for overpayment; child support payments to TANF recipients; and foster care payments.
- Hindrances in converting child support payments to electronic payments are much the same as TANF reasons.
- In either program, only the approval of the Commissioner is required for changes in payment type. No regulatory change would be needed, but revisions would have to be made in guidance and training material and clients educated.

Department of Accounts General Warrant Checks:

- Out of 2,065,859 general warrant disbursements, 47% were made electronically.
- We do not have a breakdown of the types of general warrant disbursements made for vendor payments and other obligations of the Commonwealth. However, converting the 1,100,203 check payments to electronic payments would result in a substantial savings.
- The Appropriation Act authorizes the State Comptroller to mandate electronic payments to any recipient of six or more payments per year. There are 21,254 vendors that fall into this category, representing 733,803 checks that can be converted to electronic payments. This represents 66.70% of all general warrant checks. Since the Department of Accounts has limited staffing resources available to actively enroll all 21,254 vendors and contractors eligible for the statutory mandate, enrollment efforts are prioritized to target recipients with higher volumes of payments. Currently, DOA is targeting payees receiving more than 300 payments annually, representing about 226,000 checks annually.

Potential Recommendations

Virginia Retirement System:

- Continue campaign to convert retiree payroll checks to direct deposit (91,331 checks issued to approximately 7,610 retirees).

Department of Taxation:

- Approximately 98% of all tax refund checks are to individual filers. Continue campaign to convert individual tax filer checks to direct deposit (1.5mm checks issued). Solutions may be to highlight that refund checks take considerably longer than direct deposit or to explore monetary incentives to encourage tax filers to use electronic deposit (which would be very unpopular).

Department of Social Services:

- 92.57% of all child support payments were processed electronically. 74.40% of all TANF payments are made electronically. Approximately 405,921 checks are processed for the two programs

Department of Accounts:

- The Appropriation Act authorizes the State Comptroller to mandate electronic payments to any recipient of six or more payments per year. There are 21,254 vendors that fall into this category, representing 733,803 checks that can be converted to electronic payments. This represents 66.70% of all general warrant checks. However, conversions depend upon how cooperative the vendor is, staffing, and how long it would take DOA to complete the sign-up process. DOA is currently examining the feasibility of outsourcing appropriate functions required to convert general warrant disbursements from checks to electronic payments.
- Extend mandatory EDI payments for board members and other non-employees receiving three or more travel reimbursements annually. This would eliminate up to 10,000 checks annually.